

Message Text

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72

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-03 H-02 L-03 PA-01 PRS-01 /088 W

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R 061730Z JUN 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 5420

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASY LA PAZ

AMEMBASSY/QUITO 2949

AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: ECIN, EGEN, EINV

SUBJECT: ANDEAN PACT: FOREIGN INVESTMENT REGULATIONS

REF: LIMA 4307

1. THE EXTRAORDINARY COMMISSION MEETING SCHEDULED FOR JUN 4-6 TO CONSIDER CHILEAN REQUEST TO SELL ABOUT 75 FIRMS CURRENTLY OWNED BY CORFO (REFTEL) HAS BEEN CANCELLED. THIS ITEM OF BUSINESS WILL BE INCORPORATED INTO AGENDA OF NEXT COMMISSION MEETING WHICH WILL START JUNE 23.

2. THE CHILEAN REQUEST IS BASED ON ART. 3 OF ANDEAN FOREIGN INVESTMENT CODE (DECISION 24) WHICH SPECIFIES THE CONDITIONS UNDER WHICH SHARES IN EXISTING FIRMS CAN BE SOLD TO FOREIGN INVESTORS. REACTION OF MEMBER COUNTRIES TO THIS REQUEST HAS BEEN MIXED. COLOMBIAN REPRESENTATIVE REPORTEDLY RAISED STRONG OBJECTIONS WHEN THIS

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ISSUE WAS RAISED BY CHILE DURING LAST COMMISSION MEETING,

WHILE PERU EXERTED MODERATING INFLUENCE. COLOMBIA'S MOTIVE, ACCORDING TO ONE OBSERVER, WAS TO INTRODUCE AN ADDITIONAL ELEMENT WHICH COULD DELAY APPROVAL OF PENDING SECTORAL PROGRAMS.

3. PERU WAS INSTRUMENTAL IN GETTING COLOMBIA AND CHILE BACK TOGETHER. PERU'S MOTIVES ARE (A) TO GET SECTORAL PROGRAMS APPROVED AS SOON AS POSSIBLE AND (B) TO AVOID EMBARRASSING DISCUSSIONS ON DECISION 46 (ANDEAN MULTINATIONAL ENTERPRISES).

4. PERU HAS NOT YET PUT DECISION 46 INTO EFFECT, SINCE THIS WOULD CREATE EXTREME INTERNAL DIFFICULTIES IN TERMS OF CAPITAL FLIGHT AND IN TERMS OF THE INDUSTRIAL COMMUNITY CONCEPT. A PERUVIAN OFFICIAL COMMENTED TO EMBASSY OFFICER THAT RECOURSE TO ART. 3 OF DECISION 24 IS A VERY CLEVER MOVE ON PART OF CHILE. THIS ARTICLE STATES THAT SHARES MUST FIRST BE OFFERED TO NATIONAL AND SUBREGIONAL INVESTORS BEFORE SALE TO THIRD COUNTRY INTERESTS CAN BE CONSIDERED. SALE OF SHARES TO SUBREGIONAL INVESTORS WOULD FORCE IMPLEMENTATION OF DECISION 46, WITH OR WITHOUT PERU.

5. PERUVIANS ARE TRYING TO FIND WAYS TO OVERCOME THIS PROBLEM. ONE OF THE IDEAS WHICH WAS DISCUSSED IS THAT CAPITAL OF INTERNATIONAL FINANCE CORPORATION AND OTHER INTERNATIONAL ENTITIES WOULD BE CONSIDERED "SUBREGIONAL". IN THE END, PERU MAY PREFER TO HAVE CHILE SELL SHARES TO FOREIGN PRIVATE INVESTORS RATHER THAN TO PERMIT PERUVIAN NATIONALS TO INVEST THERE.

6. IN ADDITION TO THE CHILEAN ISSUE, COMMISSION MAY CONSIDER SLIGHT MODIFICATION OF DECISION 24 AT ITS NEXT MEETING. WITH REGARD TO 14 PERCENT PROFIT REMITTANCE LIMITATION, SOME OBSERVERS FEEL THAT AN ESCAPE CLAUSE WILL BE ADDED TO PERMIT INDIVIDUAL COUNTRIES TO APPLY DIFFERENT REGULATIONS WHEN THESE ARE JUSTIFIED BY COMPELLING CIRCUMSTANCES. JUNTA OFFICIALS HAVE EXPRESSED THE OPINION, HOWEVER, THAT IMPLEMENTATION OF DECISION 46 IS A MORE IMMEDIATE PROBLEM THAN THE ANDEAN FOREIGN INVESTMENT CODE. VENEZUELA CONSIDERS THE CONSTITUTION LIMITED OFFICIAL USE

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OF ANDEAN MULTINATIONAL ENTERPRISES AN INDISPENSABLE ELEMENT IN ECONOMIC INTEGRATION.
DEAN

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Message Attributes

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